

Message Text

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PAGE 01 TOKYO 01218 01 OF 02 270701Z

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5040

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

US MISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 1218

DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JAN 20-26

1. SUMMARY: CABINET READIES BUDGET PROPOSALS FOR DIET
SCHEDULED TO RECONVENE JAN 31. MORE DOUBTS EXPRESSED ABOUT
EARLY DISCOUNT RATE CUT. DEC SURPLUS BRINGS JAPAN'S BOP
INTO LARGER SURPLUS THAN ANTICIPATED. FORECASTS OF INDIVIDUAL
GNP ACCOUNTS FOR FY 77 SHOW RELATIVELY BALANCED GROWTH IN KEY
DOMESTIC COMPONENTS EASILY OUTWEIGHING PROJECTED DETERIORATION
OF EXTERNAL BALANCE. NOV INDUSTRIAL PRODUCTION FIGURES
REVISED UPWARD TO SHOW STRONGER GROWTH OF OUTPUT, BUT DEC
RETAIL SALES INDICATE LACKLUSTER CONSUMER DEMAND. END SUMMARY.

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PAGE 02 TOKYO 01218 01 OF 02 270701Z

2. FOLLOWING CABINET DECISION ON ITS BUDGET
PROPOSALS, GOJ IS NOW READYING BUDGET DOCUMENTATION FOR
SUBMISSION TO DIET SCHEDULED TO RECONVENE JAN 31, AS
REPORTED TOKYO 1007 (NOTAL), PRINCIPAL CHANGES IN MOF DRAFT
BUDGET EMBODIED IN JAN 20 CABINET PROPOSALS WERE TO FOCUS
GENERAL ACCOUNT SPENDING MORE HEAVILY ON PUBLIC WORKS
(ALTHOUGH TOTAL GENERAL ACCOUNT EXPENDITURE WAS UNCHANGED)

FROM MOF DRAFT) AND TO TACK ANOTHER 600 BIL YEN (ABOUT \$2 BIL) ONTO FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) OUTLAY PROPOSED BY MOF. CABINET BUDGET PROPOSALS THUS CALL FOR 17.4 PERCENT INCREASE IN GENERAL ACCOUNT SPENDING, YEN 8.5 TRILLION (\$29 BIL) GENERAL ACCOUNT DEFICIT (BOTH UNCHANGED FROM MOF DRAFT), AND 18.1 PERCENT RISE IN FLIP OUTLAYS (AS COMPARED WITH 12.1 PERCENT MOF PROPOSED INCREASE). CABINET APPROVED MOF PROPOSAL FOR NET TAX REDUCTION OF ABOUT YEN 265 BIL. OPPOSITION PARTIES' COMPLAINTS HAVE CENTERED ON RELATIVELY MODEST SIZE OF BOTH TAX CUTS PROPOSED AND INCREASES IN SPENDING FOR SOCIAL WELFARE AND EDUCATION. BUSINESS REACTION REMAINS GENERALLY FAVORABLE ALTHOUGH SOME STILL LOBBY FOR MORE ACTION.

3. PUBLIC DISCUSSION THIS WEEK OF POSSIBLE DISCOUNT RATE CUT INCLUDES NEGATIVE STATEMENTS FROM FINANCIAL OFFICIALS AND CONTINUED CAMPAIGN FOR CUT BY BUSINESS LEADERS. ON JAN 21 BOJ GOV MORINAGA REPEATED HIS PREVIOUS STATEMENT THAT HE SEES NO URGENT NECESSITY FOR A DISCOUNT RATE CUT, AND FINMIN BOH CONCURRENTLY MADE SIMILAR NEGATIVE SOUNDS ABOUT IMMEDIATE NEED FOR DISCOUNT RATE CUT. ON THE OTHER HAND, LONG-TERM INTEREST RATES CONTINUE TO DECLINE, REPORTEDLY REFLECTING BULLISH BUYING OF BONDS BY FINANCIAL INSTITUTIONS FACED WITH WEAK DEMAND FOR LOANS. YIELDS ON NTT BONDS (10-YEAR MATURITY) DECLINED TO 8.76 PERCENT PER ANNUM ON JAN 25, THE LOW SINCE MID-1973, BEFORE ACUTE INFLATION AND CONTRACYCLICAL POLICIES LED TO SHARPLY HIGHER INTEREST RATE LEVELS.

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PAGE 03 TOKYO 01218 01 OF 02 270701Z

4. AS SHOWN IN TABLE BELOW, PRELIMINARY DEC BALANCE OF PAYMENTS FIGURES RELEASED THIS WEEK BROUGHT JAPAN'S CURRENT ACCOUNT SURPLUS TO \$3.7 BIL FOR THE YEAR 1976, FOLLOWING DEFICITS IN THE PRECEDING TWO YEARS TOTALING NEARLY \$5 1/2 BIL. JAPAN'S TRADE SURPLUS ABOUT DOUBLED FROM THE PREVIOUS YEAR, FROM \$5 BIL IN 1975 TO \$9.9 BIL LAST YEAR, EXCEEDING THE PREVIOUS RECORD \$9.0 BIL SURPLUS IN 1972. BECAUSE SERVICE AND TRANSFER PAYMENTS HAD GROWN TO \$6.2 BIL LAST YEAR, AS COMPARED WITH \$2.4 BIL IN 1972, THE 1976 CURRENT ACCOUNT SURPLUS WAS NOT MUCH MORE THAN HALF 1972'S \$6.6 BIL SURPLUS.

5. DESPITE SOME STRENGTHENING IN THE TRADE ACCOUNTS IN THE FOURTH QUARTER, THE CURRENT SURPLUS IN THE SECOND HALF DECLINED TO \$1 BIL, FROM \$2 1/2 BIL IN THE FIRST HALF OF THE YEAR. OVER THE COURSE OF LAST YEAR, A SURGE IN JAPANESE EXPORTS (S.A.) IN THE FIRST QUARTER WAS FOLLOWED BY A SLOWDOWN IN THE SECOND AND THIRD QUARTERS, AND SOME PICK-UP IN THE FOURTH QUARTER. IMPORTS GREW SLOWLY IN THE FIRST HALF

OF THE YEAR, SKY-ROCKETED IN THE THIRD QUARTER, AND IN
THE FOURTH QUARTER WERE GROWING AT A 14 PERCENT ANNUAL RATE.

6. ON BALANCE, THE CAPITAL ACCOUNTS IN 1976 SHOWED ONLY
MINOR CHANGE FROM 1975. OUTFLOWS OF LONG-TERM CAPITAL IN-
CREASED \$0.7 BIL AND INFLOWS OF SHORT-TERM CAPITAL INCREASED
BY \$0.6 BIL.

7. WITHIN THE LONG-TERM CAPITAL ACCOUNTS, GROSS OUTFLOWS
OF JAPANESE CAPITAL ROSE \$1.2 BIL OVER THE 1975 LEVEL,
REACHING \$4.6 BIL LAST YEAR. THE 1976 FIGURE EXCEEDED 1974-
75 LEVELS, BUT WAS ABOUT ONE-HALF THE OUTFLOW IN 1973.
WHILE DETAILED INFO IS NOT YET AVAILABLE FOR THE YEAR 1976,
INCREASES IN FOREIGN TRADE CREDIT PROBABLY WERE ONE IMPORTANT
FACTOR CONTRIBUTING TO THE INCREASE IN CAPITAL OUTFLOWS.
GROSS INFLOWS OF FOREIGN LONG-TERM CAPITAL, AT \$3.6 BIL IN
1976, WERE UP \$0.5 BIL OVER 1975. HIGH LEVELS OF EXTERNAL
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PAGE 04 TOKYO 01218 01 OF 02 270701Z

BOND ISSUES WERE THE MAIN FACTOR ACCOUNTING FOR THE INCREASE
IN FOREIGN CAPITAL INFLOWS DURING THE YEAR. EXTERNAL BOND
ISSUES BY JAPANESE ENTERPRISES, THOUGH SLOWING TOWARD YEAR-
END, PRODUCED A \$1.5 BIL NET INFLOW, AS COMPARED WITH A
\$1.2 BIL INFLOW IN 1975. FOREIGN PURCHASES OF JAPANESE
SECURITIES WERE STRONG EARLY LAST YEAR, SLACKENED AROUND
MID-YEAR, AND RECOVERED TOWARD YEAR-END. FOR THE FULL YEAR,
HOWEVER, FOREIGN NET PURCHASES OF JAPANESE SECURITIES, AT
\$1.6 BIL, WERE ONLY SLIGHTLY LARGER THAN 1975'S
\$1.5 BIL.

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PAGE 01 TOKYO 01218 02 OF 02 270711Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 TOKYO 1218

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8. SHORT-TERM CAPITAL (BANKING AND NON-MONETARY) AND ERRORS
AND OMISSIONS RESULTED IN NET INFLOWS OF \$0.8 BIL LAST
YEAR, UP FROM \$0.2 BIL IN 1975. UNDERLYING MODEST INCREASE IN NET
INFLOWS WERE LARGE SHIFTS IN COMPONENT ACCOUNTS, FOR WHICH DETAIL
NOT YET AVAILABLE. IT IS NOTEWORTHY THAT, DESPITE OFFICIAL
CONCERNS, COMMERCIAL BANKS IN JAPAN CONTINUED TO BORROW
ABROAD AT SHORT-TERM, ALTHOUGH AT SLOWER PACE THAN IN RECENT
YEARS. TABLE FOLLOWS (S.A. FIGURES DO NOT NECESSARILY ADD
TO ANNUAL TOTALS):

1976 (S.A.)

1975 1976 I II III IV

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PAGE 02 TOKYO 01218 02 OF 02 270711Z

EXPORTS 54.7 66.0 15.5 16.1 16.6 17.3

IMPORTS -49.7 -56.1 -12.9 -13.2 -14.6 -15.1

TRADE BAL. 5.0 9.9 2.6 2.9 2.0 2.2

SV. & TRANSF. -5.7 -6.2 -1.6 -1.4 -1.7 -1.5

CURR. ACC. BAL. -0.7 3.7 1.0 1.5 0.3 0.7

LONG-TERM ASSETS -3.4 -4.6 -0.9 -0.9 -1.2 -1.6

LONG-TERM LIAB. 3.1 3.6 1.2 0.9 0.8 0.7

LONG-TERM CAP. NET -0.3 -1.0 0.2 0 -0.3 -0.9

BASIC BAL. -1.0 2.7 1.2 1.5 -0.1 -0.2

NON-MONETARY

SHORT-TERM CAP.

AND ERRORS AND

OMMISSIONS -1.7 0.2 0.1 -0.2 0.6 -0.3

OVERALL BAL. -2.7 2.9 1.3 1.3 0.6 -0.5

SHORT-TERM

BANKING CAP. 1.9 0.6 0.9 0.6 -0.3 -0.5

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MENTS BAL. -0.8 3.5 2.2 1.9 0.3 -1.0

9. ECONOMIC FORECAST IN RESPECTED NIHON KEIZAI SHINBUN
FORESEES FAIRLY BALANCED GROWTH IN MAJOR DOMESTIC GNP
COMPONENTS IN JFY 77 CONTRIBUTING TO HIGHER LEVELS OF
ECONOMIC ACTIVITY. DECLINING FOREIGN BALANCE FORECAST AS
RELATIVELY MINOR DRAG ON ECONOMY. IN COMMENT ON ARTICLE,
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PAGE 03 TOKYO 01218 02 OF 02 270711Z

GOVT OFFICIAL SAID FIGURES SHOWN IN NIKKEI ARTICLE COULD BE
CONSIDERED RELIABLE, ALTHOUGH REAL GROWTH PROJECTIONS FOR
GNP COMPONENTS ARE NOT PUBLISHED. NIHON KEIZAI TABLE FOLLOWS:

ECONOMIC FORECAST -- FISCAL YEAR (APRIL TO MAR) BASIS

PERCENT CHANGE FROM PRIOR YEAR

IN NOMINAL TERMS IN REAL TERMS

1976 1977 1976 1977

PRIVATE CONSUMPTION 13.6 13.7 4.6 5.4

PVT. HOUSING INVEST. 17.8 16.5 8.1 8.3

PVT. PLANT & EQUIP.

INVESTMENT 8.9 12.2 3.8 6.9

GOVT. EXPENDITURE 11.0 13.1 4.8 7.0

CURR. EXPENDITURE 12.2 10.7 4.7 3.7

FIXED CAP. FORM. 12.9 15.9 7.1 9.9

EXPORTS 15.2 11.7 13.3 5.4

IMPORTS 22.6 15.5 9.6 7.1

GNP 13.4 13.7 5.7 6.7

10. ACCORDING TO REVISED MITI DATA, NOV MINING AND MANUFACTURING PRODUCTION, SEASONALLY ADJUSTED, REGISTERED HEALTHY 2.5 PERCENT INCREASE FROM PRIOR MONTH, THE FIRST STRONG ADVANCE SINCE JULY. PRODUCERS' SHIPMENTS (JEI 239) ALSO SHOWED STRONG 3.8 PERCENT GAIN FROM OCT LEVEL, AFTER LIMITED OFFICIAL USE

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PAGE 04 TOKYO 01218 02 OF 02 270711Z

THREE SUCCESSIVE MONTHLY DECLINES. INVENTORIES OF FINISHED GOODS ROSE SLIGHTLY TO REACH YEAR'S HIGHEST LEVEL BUT RATIO OF INVENTORIES TO SHIPMENTS (JEI 253) DECLINED. NOV ADVANCES IN PRODUCTION (JEI 212) AND SHIPMENTS WERE BROADLY BASED, AS NEARLY ALL INDUSTRIES RECORDED INCREASES.

INDUSTRIAL PRODUCTION, SHIPMENTS, AND INVENTORIES
(INDEX, S.A. 1970 EQUALS 100; PERCENT CHANGE FROM
PRIOR PERIOD IN PAREN)

MIN, MFG. PRODUCERS' INVENTORY/
PRODUCTION SHIPMENTS SHIPMENTS RATIO

QUARTERLY DATA

JAN-MAR 118.8 (5.8) 124.1 (5.7) 129.7 (-5.8)

APR-JUNE 125.2 (5.4) 129.4 (4.3) 122.0 (-5.9)

JUL-SEP 126.6 (1.1) 130.4 (0.8) 120.9 (-0.9)

MONTHLY DATA

SEP 125.5 (-0.4) 128.8 (-1.5) 123.2 (2.7)

OCT 125.7 (0.2) 126.9 (-1.5) 126.4 (2.6)

NOV 128.9 (2.5) 131.7 (3.8) 124.1 (-1.8)

11. DEPARTMENT STORE SALES REMAINED SLUGGISH IN DEC, AND SEASONALLY ADJUSTED SALES INDEX (JEI 302) DECLINED FOR SECOND STRAIGHT MONTH. DEC SALES FIGURES SHOW EXPECIALLY SHARP DECLINES FOR CLOTHING (DOWN 4.8 PERCENT) AND PERSONAL ACCESSORIES (DOWN 5.5 PERCENT). EXCEPT FOR STRONG FIRST QUARTER PERFORMANCE, 1976 WAS NOT MEMORABLE YEAR FOR DEPT STORE SALES. IN LAST THREE QUARTERS OF THE YEAR INCREASE

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PAGE 05 TOKYO 01218 02 OF 02 270711Z

IN VALUE OF DEPT STORE SALES GENERALLY DID NOT KEEP PACE WITH
RISE IN CPI.

INDEX (1970 EQUALS 100) PERCENT CHANGE
FROM PRIOR PERIOD

ANNUAL DATA

1974	204.3	20.3
1975	225.9	10.6
1976	245.3	8.6

QUARTERLY DATA, S.A.

JAN-MAR	241.6	4.9
APR-JUNE	242.7	0.5
JUL-SEP	246.5	1.6
OCT-DEC	250.3	1.5

MONTHLY DATA, S.A.

OCT	254.2	3.7
NOV	250.3	MIN 1.5
DEC	246.4	MIN 1.6
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Disposition Approved on Date:
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